

**REPORT OF THE AUDIT OF THE
FORMER EDMONSON COUNTY
SHERIFF**

**For The Year Ended
December 31, 2007**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
FORMER EDMONSON COUNTY SHERIFF**

**For The Year Ended
December 31, 2007**

The Auditor of Public Accounts has completed the former Edmonson County Sheriff's audit for the year ended December 31, 2007. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees increased by \$35,503 from the prior year, resulting in excess fees of \$289,650 as of December 31, 2007. Revenues increased by \$54,862 from the prior year and expenditures increased by \$19,359.

Report Comments:

- The Former Sheriff's Office Lacked Adequate Segregation Of Duties Over Cash, Receipts, Expenditures, And Reporting
- The Former Sheriff Should Have Advertised For Bids For Purchases Over \$20,000

Deposits:

The former Sheriff's deposits as of December 10, 2007 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$535,830

The former Sheriff's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the former Sheriff's deposits in accordance with the security agreement.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable N.E. Reed, Edmonson County Judge/Executive
The Honorable B.J. Honeycutt, Former Edmonson County Sheriff
The Honorable Mike Vincent, Edmonson County Sheriff
Members of the Edmonson County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the former Sheriff of Edmonson County, Kentucky, for the year ended December 31, 2007. This financial statement is the responsibility of the former Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the former Sheriff for the year ended December 31, 2007, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated January 16, 2009 on our consideration of the former Edmonson County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable N.E. Reed, Edmonson County Judge/Executive
The Honorable B.J. Honeycutt, Former Edmonson County Sheriff
The Honorable Mike Vincent, Edmonson County Sheriff
Members of the Edmonson County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Former Sheriff's Office Lacked Adequate Segregation Of Duties Over Cash, Receipts, Expenditures, And Reporting
- The Former Sheriff Should Have Advertised For Bids For Purchases Over \$20,000.

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Edmonson County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

January 16, 2009

EDMONSON COUNTY
B.J. HONEYCUTT, FORMER SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2007

Revenues

U.S. Treasurer

Community Oriented Policing Services - Equipment Grant	\$ 69,055	
Corps of Engineers - Lake Patrol Cooperative Agreement	17,850	
Safety Grant	<u>904</u>	\$ 87,809

State - Kentucky Law Enforcement Foundation Program Fund		10,982
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State Fees For Services:

Finance and Administration Cabinet	29,088	
Cabinet for Health and Family Services	575	
Sheriff Security Service (HB 452)	<u>6,792</u>	36,455

Circuit Court Clerk:

Fines and Fees Collected		2,510
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Fiscal Court		74,879
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County Clerk - Delinquent Taxes		2,343
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Commission On Taxes Collected		132,956
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Other Fees On Taxes Collected:

Tax 10% Fees	25,591	
Advertising Fees and Costs	<u>2,795</u>	28,386

Fees Collected For Services:

Auto Inspections	3,095	
Accident and Police Reports	262	
Serving Papers	24,610	
Fiscal Court Papers	6,040	
Carrying Concealed Deadly Weapon Permits	<u>2,018</u>	36,025

Other:

Insurance Proceeds - Vehicles	13,718	
Surplus Sale	3,200	
Prisoner Transport	3,365	
Miscellaneous	<u>335</u>	20,618

Interest Earned		<u>525</u>
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Total Revenues		433,488
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The accompanying notes are an integral part of this financial statement.

EDMONSON COUNTY
B.J. HONEYCUTT, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2007
(Continued)

Expenditures

Operating Expenditures:

Other Charges -

Community Oriented Policing Services - Equipment Grant	\$ 69,055
Postage	225
Carrying Concealed Deadly Weapon Permits	<u>55</u>

Total Expenditures	<u>\$ 69,335</u>
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Net Revenues	364,153
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Less: Statutory Maximum	<u>71,118</u>
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Excess Fees	293,035
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Less: Training Incentive Benefit	<u>3,386</u>
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Excess Fees Due County for 2007	289,649
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Payments to Fiscal Court - Monthly	<u>288,502</u>
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Balance Due Fiscal Court at Completion of Audit	<u><u>\$ 1,147</u></u>
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The accompanying notes are an integral part of this financial statement.

EDMONSON COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2007

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2007 services
- Reimbursements for 2007 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2007

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

EDMONSON COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2007
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.19 percent for the first six months and 16.17 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The former Edmonson County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The former Edmonson County Sheriff did not have a deposit policy for custodial credit risk but rather followed the requirements of KRS 41.240(4). As of December 31, 2007, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of December 10, 2007, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the former Sheriff's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured \$535,830

EDMONSON COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2007
(Continued)

Note 4. Fee Pooling

The Edmonson County Fiscal Court adopted a fee pooling order. Once a month the Sheriff remits excess fees to the Fiscal Court, which in turn pays the operating expenses of the Sheriff's Office.

Note 5. Drug Account

The Sheriff's office maintains a Drug Account. Receipts of the Drug Account are fees charged for weekly drug testing and weekly home incarceration monitoring. The beginning balance of the Drug Account was \$5,918. During 2007, receipts were \$15,491 and disbursements were \$17,577, leaving a December 31, 2007 balance of \$3,832.

Note 6. Federal Grant

The Sheriff's office received a Community Oriented Policing Services (COPS) - Law Enforcement Technology Grant from the U. S. Department of Justice in the amount of \$197,446. The beginning grant account balance was \$3,905. During 2007, receipts were grant funds of \$77,500 and interest of \$125, and expenditures were \$69,065. The unexpended grant account balance as of December 31, 2007 was \$12,465.

Note 7. Subsequent Events

The Sheriff B. J. Honeycutt retired on July 31, 2008. Mike Vincent was appointed interim Sheriff by the Edmonson County Fiscal Court until a special election could be held in November 2008.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable N.E. Reed, Edmonson County Judge/Executive
The Honorable B.J. Honeycutt, Former Edmonson County Sheriff
The Honorable Mike Vincent, Edmonson County Sheriff
Members of the Edmonson County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the former Edmonson County Sheriff for the year ended December 31, 2007, and have issued our report thereon dated January 16, 2009. The Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Edmonson County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the former Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the former Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comments and recommendations to be a significant deficiency in internal control over financial reporting.

- The Former Sheriff's Office Lacked Adequate Segregation Of Duties Over Cash, Receipts, Expenditures, And Reporting



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency described above is a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the former Edmonson County Sheriff's financial statement for the year ended December 31, 2007, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is included in the accompanying comments and recommendations.

- The Former Sheriff Should Have Advertised For Bids For Purchases Over \$20,000

This report is intended solely for the information and use of management, the Edmonson County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

January 16, 2009

COMMENTS AND RECOMMENDATIONS

EDMONSON COUNTY
B.J. HONEYCUTT, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2007

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY AND MATERIAL WEAKNESS

The Former Sheriff's Office Lacked Adequate Segregation Of Duties Over Cash, Receipts, Expenditures, Reconciliations, And Reporting

Our review and evaluation of the former Sheriff's internal controls disclosed a lack of segregation of duties. All employees of the Sheriff's office collected receipts. The former Sheriff's bookkeeper prepared daily checkout sheets, some bank deposits, and posted collection totals to the receipts ledger. The bookkeeper also prepared and signed checks, and posted items to the disbursements ledger. The bookkeeper prepared monthly and quarterly financial reports and performed monthly bank reconciliations. A proper segregation of duties would have separate employees collecting and expending money, recording transactions in the ledgers, and reconciling the financial records. There were no compensating controls noted to offset this internal control deficiency. The former Sheriff could have implemented compensating controls similar to those noted below to offset the lack of adequate segregation of duties.

- The former Sheriff should have periodically compared a daily bank deposit to the daily checkout sheet and then compared the daily checkout sheet to the receipts ledger. Any differences should have been reconciled. He could have documented this by initialing the bank deposit, daily checkout sheet, and receipts ledger for the day checked.
- The former Sheriff should have compared the monthly, quarterly, and annual financial reports to receipts and disbursements ledgers for accuracy. Any differences should have been reconciled. The former Sheriff could have documented this by initialing the receipts and disbursements ledgers or denoting the comparison on the financial reports.
- The former Sheriff should have compared the monthly excess fee report payment to the cancelled check as shown on the bank statement. He could have documented this by initialing the bank statement.
- The former Sheriff should have periodically compared the bank reconciliation to the balance in the checkbook. Any differences should have been reconciled. The former Sheriff could have documented this by initialing the bank reconciliation and the balance in the checkbook.
- The former Sheriff should have periodically verified that all receivables and receipts for Home Incarceration and Drug Testing were recorded. He could have documented the comparison by initialing the court docket showing the court order for Home Incarceration and Drug Testing to the Drug Account subsidiary ledger, and by initialing the subsidiary ledger individual accounts.

Former Sheriff's Response: None.

STATE LAWS AND REGULATIONS

The Former Sheriff Should Have Advertised For Bids For Purchases Over \$20,000.

The former Sheriff purchased an evidence collection and processing vehicle from the federal grant account during 2007. The total expended for the vehicle was \$60,717. KRS 424.260 requires officials to advertise for bids for equipment purchases exceeding \$20,000. We recommend bids be obtained for all expenditures exceeding \$20,000 as required.

Former Sheriff's Response: None.

